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RUEHEK/AMEMBASSY BISHKEK 1267
RUEHTA/AMEMBASSY ALMATY 1853
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SUBJECT: CHINA/CENTRAL ASIA - URUMQI HIGH LEVEL FORUM
STRESSES GREATER REGIONAL ECONOMIC INTEGRATION

REF: (A) 05 BEIJING 15345 (B) BEIJING 19030

¶1. (SBU) Summary: At the fourth session of the Central, West and South Asia Regional Economic Cooperation High-Level Forum held in Urumqi, Xinjiang on September 2, 2006, participants effused about the future of regional cooperation and economic integration. The Executive Director of the Sunbridge Industrial Group Co. Ltd said Sunbridge's goal is to take advantage of preferential policies under consideration for a free trade zone centered in Horgos as an export processing zone. The President and CEO of Habib Bank Limited said that Pakistan is building Gwadar Port and linking it with the Karakorum highway by road and rail to create a sea access point for trade with Xinjiang. The Minister for International and Foreign Economic Relations of Russia's Sverdlosk region noted plans to hire Chinese labor for Russian construction projects. In a somewhat discordant note, a representative from the Turkish Undersecretariat for Foreign Trade noted rising trade frictions with China. End Summary.

Kazakhstan - Horgos Land Port Development Begins

¶2. (SBU) Ding Jiankui, Executive Director of the Sunbridge Industrial Group Co. Ltd of Zhejiang, China noted in his speech that Horgos, the largest land highway port of western China, is now connected by rail and road to both Urumqi, capital of northwestern China's Xinjiang Province, and Yining, 429 miles to the west near the Kazakh border. Horgos is accessible year round. Ding also noted that railway construction has started to connect Horgos to Saliozeke, Kazakhstan.

¶3. (SBU) Sunbridge's goal, according to Ding, is to take advantage of preferential policies under consideration for a free trade zone centered in Horgos as an export

processing zone. The free trade zone will initially include wholesale and retail outlets. Later the Sunbridge Group plans to help match Central Asian buyers and Chinese suppliers of building material equipment, electromechanical products, automobile parts and other equipment. (Note: The land port at Horgos is approximately 670km by road from China's largest western city of Urumqi - an 8 hour drive - and 378km to Almaty, Kazakhstan. End note.)

¶4. (SBU) While the land crossing at Horgos is being developed for formal trade, the vast majority of roads linking China to Kazakhstan (over forty based on recent press reporting) are loosely guarded and have no customs or trade processing facilities. A German businessman who has lived in Xinjiang for the past ten years commented privately to Econoff that Kazakh border guards routinely allow people to cross the border without visas in return for a few U.S. dollars.

Pakistan - Link to the Sea and Widen the Karakorum

¶5. (SBU) At the Forum, Zakir Mahmood, President and CEO of Habib Bank Limited (HBL), said that Pakistan is building Gwadar Port and linking it with the Karakorum highway by road and rail to create a sea access point for trade with Xinjiang. He also announced the widening of the Karakorum Highway to triple its capacity. (Note: The Karakorum runs from Xinjiang's western city of Kashgar to Islamabad, Pakistan. A German diplomat at the conference who has traveled extensively in the region noted that winter

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weather conditions often close the pass for up to six months per year. End note.)

Pakistani Habib Bank Buying Stake in Xinjiang UCCB

¶6. (SBU) Mahmood told Econoff that Habib Bank is negotiating to take a 20 percent stake in Urumqi City Commercial Bank (UCCB). Pricing and due diligence, among others details, are still under discussion, but Mahmood is optimistic about the momentum already generated. HBL opened its Beijing office in December 2005 and within three months began negotiating for an investment in a Chinese bank, he noted.

¶7. (SBU) Mahmood characterized the Chinese as eager to attract capital and interested in western management expertise. When asked about potential bookkeeping irregularities in China, Mahmood noted that UCCB was willing to use western accounting practices and that HBL had begun a thorough review of UCCB's loan portfolio.

¶8. (SBU) HBL Bank had only one year of experience in China and could not establish its own branches until it has been in country for two years, Mahmood noted. Capital requirements are also an issue in establishing a broader banking presence in China. Since the Pakistani rupee to USD rate has fluctuated over the past year, HBL wanted to revalue its assets. This needed to be negotiated with the Chinese, he added.

¶9. (U) HBL is planning to expand UCCB's banking network beyond its current 69 branches in Xinjiang, arrange a training program in Karachi for UCCB executives, and establish cooperation with UCCB in international business and settlement through HBL's 26 country, five continents international network. Possibilities also exist for cooperation and assistance in technology improvements, business development, risk management and internal controls.

¶10. (U) Mahmood said HBL was established in 1941 and

privatized in 2004 with a 51 percent stake acquired by the Aga Khan Fund for Economic Development. HBL has assets of USD 9.1 billion, USD 2.5 billion of which are international assets. HBL has 1,425 domestic branches, 45 international branches, three subsidiaries - UK, Hong Kong and Australia, representational offices in Iran and China and joint ventures in Nepal, a 20 percent stake, and Nigeria, a 17 percent stake.

Chinese Labor to Build Russian Homes

¶11. (SBU) Dr. Viktor Koksharov, Minister for International and Foreign Economic Relations of the Sverdlosk Region in Russia commented to Econoff that for the first time a delegation company is seeking Chinese labor for Russian construction projects. Dr. Koksharov said Chinese laborers are cheaper and more reliable than their Russian counterparts. There were "problems" with Russian construction workers that might be avoided by importing labor from China he added, though he did not elaborate.

Platitudes Aside - Turkey Addresses Trade Frictions

¶12. (SBU) In a departure from the other effusive speeches
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regarding greater economic integration under the guidance of the Shanghai Cooperation Organization, Ender Oncu, Head of Department for the Republic of Turkey Prime Ministry, Undersecretariat for Foreign Trade, General Directorate of Agreements addressed bilateral trade frictions with China. Oncu stated that the Turkish trade deficit, especially over the last five years, "seems to be disturbing." Fifteen percent of Turkey's total trade deficit is attributed to China. Oncu said Turkey's trade deficit with China reached USD 4.0 billion and USD 6.3 billion in 2004 and 2005 respectively.

¶13. (SBU) Another "disturbing" trend, according to Oncu, is Turkey's exports to China which are limited to a few commodities (primarily raw materials), while imports from China include a wide range of finished, higher value-added products. The share of Turkish exports to China's total import volume was only 0.08 percent in 2005. Oncu noted that Turkey launched a "China Market Access Project" in 2005 and would organize a trade delegation to Shanghai and Beijing September 18-22 to address the broader Turkey-China trade relationship.

Comment

¶14. (SBU) Forum participants had many visions and plans to expand regional cooperation, but the vast distances between trading centers and undeveloped infrastructure pose daunting challenges. End comment.

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